



2011 CALIFORNIA VOLUNTEER REFERENCE MANUAL – Form 540 Section

Line 14 and 16

California Adjustments

Certain types of income are nontaxable in California, but taxable on your client's federal tax return. Frequently, the difference is between the taxable amount of federal and California IRA distribution, pension, and annuity income. Other income types, social security and unemployment, are taxed by federal but not by California.

If there are differences between your client's federal taxable income and state taxable income, complete a Schedule CA (540). TaxWise software will automatically generate a Schedule CA (540), although the flow through of information depends on information entered on income statements, worksheets, and the main information sheet.

Enter income taxable to federal, but not to the state. Enter the amount from Schedule CA (540), column B, line 37 to Form 540, line 14.

Enter income taxable to the state, but not to federal. Enter the amount from Schedule CA (540), column C, line 37 to Form 540, line 16.

After populating the Schedule CA (540), TaxWise software requires the preparer to review the form and mark a check box stating that the form is correct. For more detailed information on California adjustments refer to the General Information Section, the Schedule CA (540) detail later in this chapter, and FTB Publication 1001, *Supplemental Guidelines to California Adjustments*.

The most common California adjustments are:

- Any state income tax refund.
- Unemployment compensation.
- Federally taxable U.S. social security or railroad retirement.
- California nontaxable interest or dividend income.
- California IRA distributions resulting from an increased California basis.
- Non-taxable pensions and annuities.
- California Lottery winnings.
- Tuition and fees deduction.
- Educator expense.